

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES
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On the progress of reforms in July through August of 2002

As the Duma's deputies went for the summer vacations, the government remained the only «motor» of reforms. The White House was the place, where major events (although less numerous than in June) took place in July and August.

The President, who vetoed the law on bankruptcy approved by the Duma and presented a number of principal amendments to the text of the law, added some variety in this picture. It is very probable that the amendments will be approved in the beginning of the autumn session.

In August, after two months of adjustment, discussion, and elaboration the government signed resolution No. 1148-r (on August 20, 2002), which approved the governmental action plan for the second half-year (more exactly, the months remaining until the end of the year). The plan was elaborated taking into account the principles stated in the Presidential address to the Federal Assembly. Although some items were excluded from the draft, the key measures were retained.

For instance, the action plan retained the elaboration of a law on special economic zones in spite of the sharp criticism on the part of the Finance Ministry. The Ministry for Economic Development could persuade A. L. Kudrin (Vice Prime Minister), that it is principal to work out such a law; however, the dates for its presentation to the government, and, respectively, the State Duma were delayed.

Since the Finance Ministry took the principal stand with regard to the minimal social standards, the respective item requiring to work out such standards was removed from the action plan for 2002. At the meeting of the government presided by M. M. Kasyanov, which took place on July 22, it was decided to delay the presentation of the draft of the new concept of the respective federal law until January of 2003.

In July and August, a number of decision was taken in the framework of execution of the preceding (March governmental resolution No. 933-r) action plan.

On July 31, the Ministry for Industry and Science submitted to the government a draft resolution «On key guidelines for the restructuring of sectoral research and development institutes» aimed to improve the efficiency of utilization of budgetary funds assigned for the support of science.

On July 24, there was adopted federal law No. 104 — FZ (amendments to the second section of the Tax Code), which established a simplified system of taxation of small businesses. The approval of these amendments should significantly diminish the costs borne by small enterprises in relation to the necessity to carry out cumbersome accounting and employ professional accountants.

Also on July 24, the President signed the federal law «On turnover of farm lands,» which established the right of private ownership of farming land. The law should significantly improve the investment attractiveness of Russia's agricultural sector.

On July 19, the RF government approved the package of measures aimed at the implementation of state policy with regard to the development of local government.

To a certain extent, the draft federal budget for 2003 submitted by the government to the State Duma also may be considered as a reform. The draft budget consistently implements all the principles of budgetary policy the government stated in its long and medium term programs and fixed in the Budget Code. Practically all experts unanimously agree that the budget is feasible, moreover, all its parameters had been many times discussed with representatives of the State Duma, what is also a revolutionary development.

O. Fomichev

The State of the Federal Budget

According to the preliminary estimates of the Finance Ministry, the federal budget in January through July of 2002 was executed as follows: revenues – Rb. 1201.3 billion, expenditures (actual financing) – Rb. 1075.8.

The data on the execution of the federal budget up to June of 2002 are presented in Table 1¹ and 2. As of July 1, 2002, the revenues of the federal budget accounted for 20.5 % of GDP, including tax revenues at 19.3

¹ Because of the estimated data on GDP, the indices may be subject to revision.

%, while expenditures made 17.2 % of GDP (18.9 % of GDP in terms of fulfilled funding²), including non-interest ones – 14.8 % of GDP (16.5 % of GDP in terms of fulfilled funding). The level of budget surplus accounted for 3.4 % of GDP (1.6 % of GDP in terms of fulfilled funding).

Table 1

**The monthly execution of the federal budget of the Russian Federation
(in % of GDP, in comparable prices).**

	V'01	XII'01	I'02	II'02	III'02	IV'02	V'02	VI'02
Revenues								
Corporate profit tax	2,6%	2,4%	1,4%	1,4%	1,5%	1,9%	1,9%	1,7%
Personal income tax	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
VAT, special tax and excises		0,0%	4,9%	4,4%	4,0%	3,9%	3,6%	3,5%
Tax on foreign trade and foreign trade operations	9,3%	9,4%	9,3%	9,1%	9,3%	9,3%	9,3%	9,3%
Other taxes, duties and payments	6,7%	7,1%	6,9%	6,4%	6,8%	6,9%	7,0%	7,0%
Total- taxes and charges	2,5%	2,2%	2,4%	2,6%	2,5%	2,4%	2,3%	2,3%
Non- tax revenues	3,9%	3,7%	3,2%	3,3%	3,2%	3,0%	2,9%	2,9%
Revenues, total	0,7%	0,6%	9,7%	9,1%	8,7%	8,7%	8,4%	1,8%
Expenditure	16,6%	16,2%	20,4%	19,6%	19,6%	19,9%	19,6%	19,3%
Public administration	1,3%	1,4%	2,1%	1,6%	1,4%	1,3%	1,2%	1,3%
National defense	17,8%	17,6%	22,4%	21,2%	20,9%	21,2%	20,9%	20,5%
International activities								
Judicial power	0,4%	0,5%	0,1%	0,2%	0,3%	0,4%	0,4%	0,4%
Law enforcement and security activities	2,7%	2,7%	1,0%	1,5%	1,9%	2,3%	2,4%	2,5%
Fundamental research	0,2%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
Services provided for the national economy	0,1%	0,1%	0,0%	0,1%	0,1%	0,1%	0,1%	0,1%
Social services	1,4%	1,6%	0,6%	0,9%	1,0%	1,2%	1,2%	1,3%
Servicing of public debt	0,2%	0,3%	0,0%	0,1%	0,2%	0,2%	0,2%	0,2%
Other expenditure	0,8%	1,3%	0,1%	0,3%	0,4%	0,5%	0,6%	0,7%
Expenditure, total	2,0%	2,3%	3,7%	4,8%	4,8%	5,3%	5,2%	5,1%
Loans, redemption exclusive	3,3%	2,6%	2,0%	3,4%	3,4%	2,6%	2,5%	2,4%
Expenditure and loans, redemption exclusive	3,1%	3,0%	2,9%	3,3%	3,6%	3,9%	4,0%	4,0%
Budget deficit (-)	14,2%	14,7%	10,9%	15,0%	16,1%	16,9%	17,1%	17,2%
Domestic financing	3,7%	2,9%	11,5%	6,2%	4,8%	4,3%	3,8%	3,4%
Other taxes, duties and payments	-1,7%	-0,1%	-11,2%	-4,6%	-2,7%	-2,0%	-1,8%	-1,6%
Total- taxes and charges	-2,0%	-2,8%	-0,4%	-1,6%	-2,1%	-2,3%	-1,9%	-1,8%
Non- tax revenues	-3,7%	-2,9%	-11,5%	-6,2%	-4,8%	-4,3%	-3,8%	-3,4%

Table 2

**The monthly execution of the federal budget of the Russian Federation
(in % GDP, actual financing)**

	I'01	II'01	III'01	IV'01	V'01	XII'01	I'02	II'02	III'02	IV'02	V'02	VI'02
Total	16,2%	16,9%	16,9%	17,5%	17,8%	17,8%	22,2%	21,0%	20,9%	21,2%	20,8%	20,5%
Public administration	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
National defense	2,4%	2,5%	2,8%	2,8%	2,9%	2,9%	1,7%	2,4%	2,4%	2,7%	2,7%	2,7%
International activities	0,5%	0,4%	0,2%	0,2%	0,2%	0,2%	0,4%	0,2%	0,4%	0,5%	0,4%	0,4%
Judicial power	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Law enforcement and security activities	1,7%	2,0%	1,9%	1,8%	1,8%	1,8%	1,6%	1,4%	1,4%	1,5%	1,5%	1,6%
Fundamental research	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%
Services provided for the national economy	0,5%	0,9%	1,0%	1,0%	1,1%	1,3%	0,3%	0,6%	0,8%	0,9%	1,0%	1,0%
Social services	2,4%	2,6%	2,5%	2,7%	2,6%	2,6%	5,0%	5,7%	5,3%	5,9%	5,7%	5,5%
Servicing of public debt	3,2%	5,5%	4,7%	4,3%	3,9%	3,2%	1,9%	3,4%	3,4%	2,7%	2,5%	2,4%
Other expenditure	3,7%	3,5%	3,2%	2,5%	2,7%	3,3%	3,5%	4,0%	3,9%	4,0%	4,6%	4,2%
Total expenditure	15,3%	18,3%	17,2%	16,4%	16,2%	16,2%	15,5%	18,7%	18,6%	19,1%	19,4%	18,9%
Профицит (+) / дефицит (-)	0,9%	-1,4%	-0,3%	1,1%	1,7%	1,6%	6,8%	2,3%	2,3%	2,1%	1,4%	1,6%

² The execution of the budget in terms of fulfilled (actual) financing is equal to the sum of the funds transferred to managers of budget funds, while the cash execution of the budget is equal to the sum of funds spent by managers of funds (i.e. without account of funds remained on their accounts).

The indicators of revenues collected in January through June of 2002 somewhat declined as compared with the figures registered in January through March. The tax revenues in January through June of 2002 made 15.8 % of GDP (without the single social tax). The arrears of general revenues administered by the Tax Ministry made Rb. 37.1 billion in the first seven months of 2002 (including Rb. 9.2 billion in the 1st quarter, Rb. 27.1 billion in the 2nd quarter, and Rb. 0.8 billion in June).

The expenditures for the servicing of the public debt in January through June of 2002 made 2.4 % of GDP. As concerns the fulfilled funding, the expenditures in the first six months of 2002 made 18.9 % of GDP.

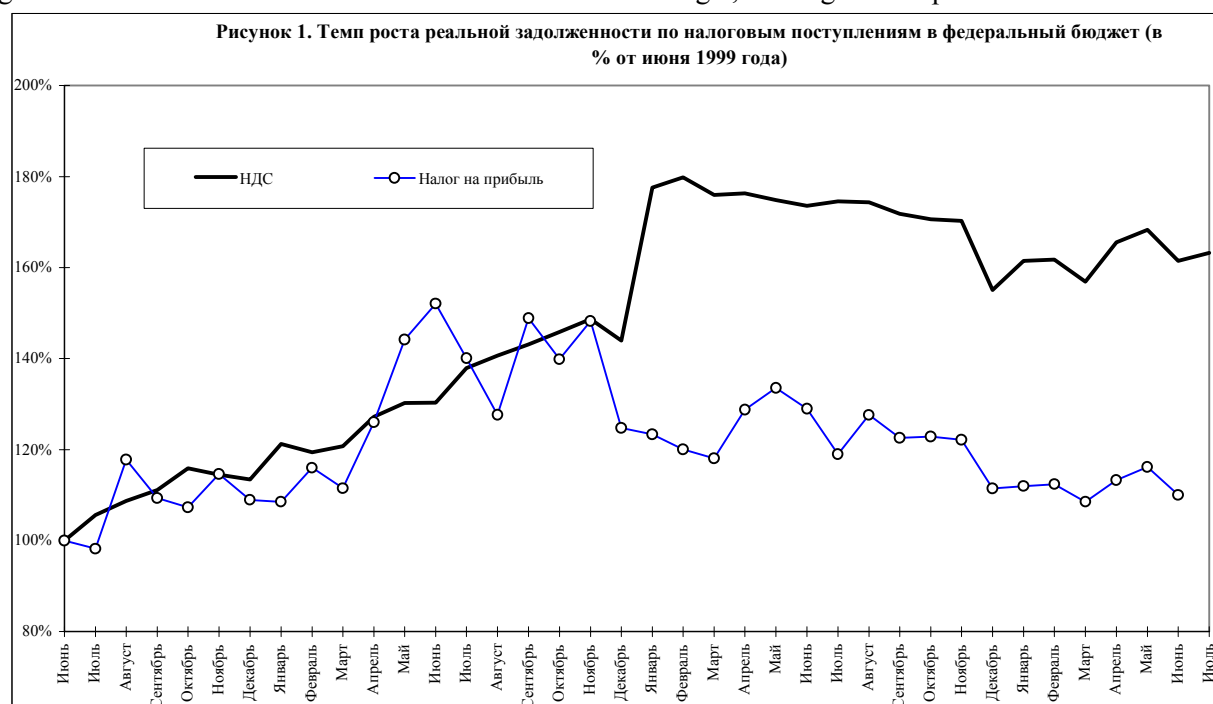
As of August 11, according to the preliminary estimates, the balances of accounts on accounting the federal budget funds (without regard to the funds accumulated on personal accounts of recipients of budget funds) grew up by Rb. 47 bln.

Table 3

**Actual tax revenues to the federal budget, according to the data of the MTC
(in % of the data for January of 1999)³.**

1999											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
100,0%	115,1%	122,0%	122,1%	104,5%	112,9%	127,0%	127,5%	124,3%	141,4%	160,8%	213,1%
2000											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
149,3%	160,5%	181,3%	205,8%	233,1%	186,9%	181,0%	186,4%	173,1%	181,1%	201,7%	254,1%
2001											
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
204,4%	198,4%	227,6%	267,5%	252,2%	233,3%	231,9%	235,6%	219,4%	237,5%	247,3%	360,6%
2002											
I	II	III	IV	V	VI	VII					
218,7%	187,1%	234,8%	277,8%	240,9%	218,0%	283,4%					

The dynamics of actual tax debts to the federal budget is presented in Figure 1⁴. In June, there was registered a decrease in tax revenue arrears of the federal budget, relating to both profit tax and VAT.



3 It was decided to choose January of 1999 as the benchmark in order to render the comparison more reliable. January of 1999 is not a remarkable date in terms of tax revenues.

4 Since 2001 the form of the MTC's presentation of the respective statistical data has been changed, and the data on debts to the federal budget across all the taxes are no longer available. Since January of 2002 the practice of balancing the data on the arrears against the amount of tax surplus has been ceased. In this relation the figure presents the data on the gross unbalanced tax arrears for comparability purposes.

Table 4

Execution of the RF consolidated budget (in % of GDP).

1998												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,2%	17,4%	18,1%	19,3%	19,7%	19,8%	19,8%	19,4%	18,8%	18,5%	18,6%	19,6%
Revenues	18,8%	20,1%	21,2%	22,4%	23,0%	23,2%	23,2%	22,9%	22,3%	22,0%	22,0%	24,5%
Expenditures	25,3%	23,8%	27,0%	28,1%	28,6%	29,5%	29,4%	28,6%	27,4%	26,9%	27,1%	29,5%
Deficit	-6,5%	-3,7%	-5,8%	-5,7%	-5,7%	-6,3%	-6,2%	-5,7%	-5,2%	-5,0%	-5,0%	-5,1%
1999												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	16,8%	16,6%	18,1%	19,9%	20,1%	20,5%	20,8%	20,8%	20,3%	20,2%	20,9%	22,1%
Revenues	19,2%	18,9%	20,6%	22,7%	23,2%	23,9%	24,3%	24,5%	24,1%	24,0%	24,8%	26,3%
Expenditures	18,6%	20,3%	23,6%	25,6%	26,6%	27,3%	27,4%	27,4%	26,7%	26,3%	26,7%	29,2%
Deficit	0,6%	-1,5%	-3,1%	-3,0%	-3,4%	-3,4%	-3,1%	-2,9%	-2,7%	-2,3%	-1,9%	-2,9%
2000												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	20,8%	21,4%	22,6%	24,2%	25,5%	25,4%	24,9%	24,8%	24,1%	23,7%	24,0%	24,6%
Revenues	24,4%	24,8%	26,4%	28,2%	29,7%	29,7%	29,3%	29,2%	28,4%	28,0%	28,6%	30,0%
Expenditures	19,6%	21,1%	23,8%	24,8%	25,2%	25,5%	22,3%	25,1%	24,5%	24,2%	24,6%	27,0%
Deficit	4,7%	3,7%	2,6%	3,4%	4,5%	4,3%	7,0%	4,1%	3,9%	3,8%	4,0%	3,0%
2001												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Taxes	22,7%	23,6%	23,9%	25,4%	26,4%	26,0%	26,1%	25,9%	25,0%	24,8%	25,4%	27,1%
Revenues	25,9%	27,1%	27,4%	29,3%	30,5%	29,8%	29,9%	29,7%	28,3%	28,2%	28,8%	29,5%
Expenditures	16,8%	22,8%	23,7%	24,7%	25,1%	25,3%	25,5%	25,6%	24,9%	24,7%	25,0%	25,6%
Deficit	9,1%	4,2%	3,7%	4,7%	5,4%	4,4%	4,4%	4,1%	3,5%	3,5%	3,8%	3,9%
2002												
	I		II		III		IV		V		VI	
Taxes	28,7%		23,6%		24,3%		26,5%		26,6%		25,9%	
Revenues	32,9%		31,3%		31,4%		33,6%		33,6%		32,7%	
Expenditures	18,3%		23,7%		26,0%		28,4%		28,4%		28,8%	
Deficit	14,6%		7,7%		5,4%		5,3%		5,2%		3,8%	

* Без учета ЕСН

The level of tax revenues of the consolidated budget in January through June of 2002 somewhat decreased in comparison to the first five-month indicators. The surplus of the consolidated budget was by 0.6 % below the level of GDP registered in the preceding year.

The estimate of tax revenues of the consolidated and federal budgets is presented in the table⁵. The estimate was revised as compared to the indicators presented in the preceding bulletin basing on the new data on the execution of the consolidated and federal budgets.

	ВВП	Всего налоговых поступлений в консолидированный бюджет РФ (без ЕСН)	Всего налоговых поступлений в федеральный бюджет РФ (без ЕСН)	Всего поступлений налога на прибыль в консолидированный бюджет РФ	Всего поступлений налога на прибыль в федеральный бюджет РФ	Всего поступлений подоходного налога в консолидированный бюджет РФ	Всего поступлений НДС
ARIMA							
Август	6652	26,0%	15,3%	4,7%	1,8%	3,3%	6,9%
Сентябрь	7623	26,1%	15,0%	4,9%	1,9%	3,2%	6,8%
Октябрь	8603	25,7%	14,6%	4,7%	1,8%	3,2%	6,8%
REM							
Июнь	6652	26,0%	15,6%	4,9%	1,8%	3,2%	6,9%
Июль	7623	25,5%	15,3%	4,8%	1,8%	3,1%	6,9%
Август	8603	24,7%	15,2%	4,6%	1,7%	3,1%	6,7%

S. Batkibekov

⁵ For the description of models see the preceding bulletins.

Monetary Policy

According to the State Committee for Statistics of the RF, in July the consumer price index was up 0.7 percent. In analyzing the commodity structure, it is important to note the seasonal decline in prices for fruit and vegetables: the prices were down 3.1 percent. Price reduction for vegetables proper averaged 11 percent. The service prices index increased 1.8 percent.

Prices for housing and communal services continue to grow substantially: the August increase is 2.4 percent, or up 49.3 percent from July 2001 and up 31.2 percent from December 2001. Prices for non-foods were up 0.6 percent.

During the first seven months of 2002 inflation rate in Russia (measured by the CPI) was 9.8 percent (13.2 percent in the respective period of 2001). Based on preliminary estimates, inflation will remain at a minimum level in August; the expected consumer price growth will be 0.1 to 0.2 percent.

Fig. 1. Consumer price index in 2002

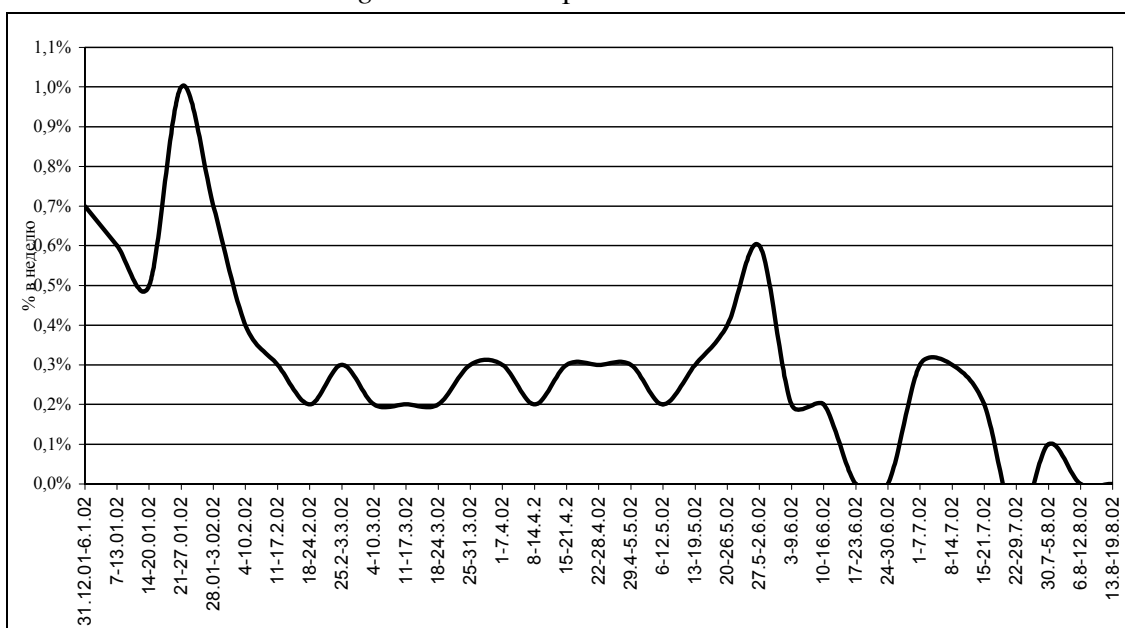
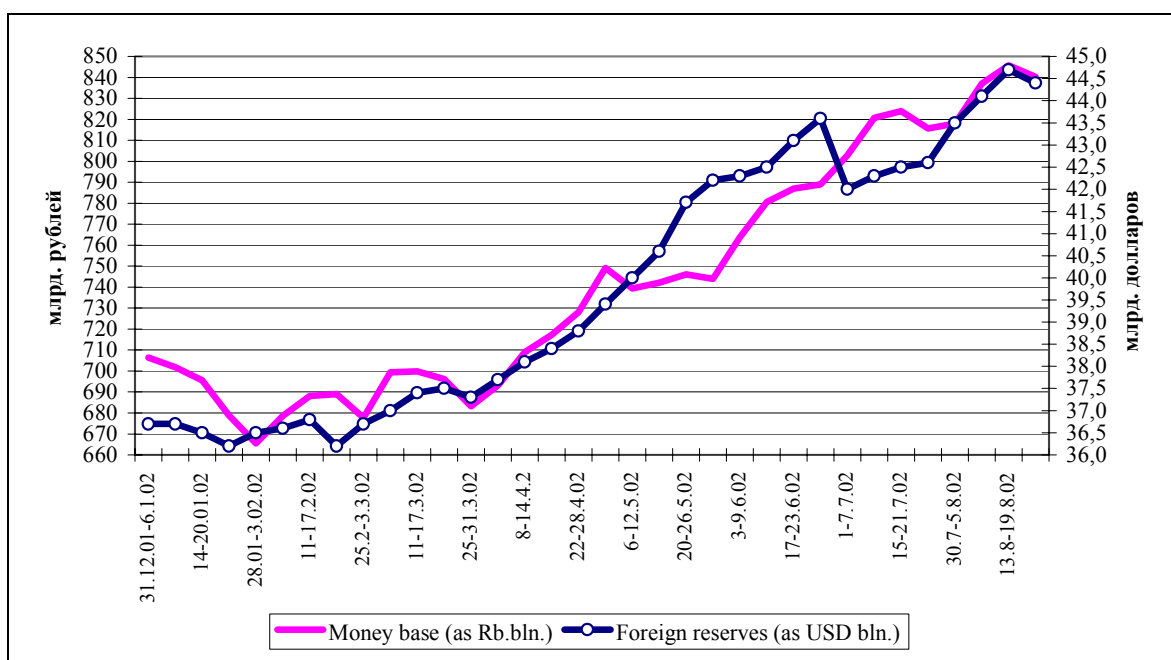


Fig. 2. Dynamics of money base and foreign reserves in 2002



In August 2002 the gold and foreign currency reserves increased, reaching US\$ 44.4 billion on 23 August 2002. A reduction amounting to US\$ 300 million was observed in the period 16 through 23 August 2002, for the first time after a long period. We would like to remind that the July low was related to the change in accounting approach by the Bank of Russia.

Consideration of the Main Directions of the Uniform State Monetary Policy for 2003 commenced in August. The draft document was considered in a meeting of the Government and introduced to the State Duma.

According to the document, the Central Bank will concentrate its efforts on reducing inflation to 9-12 percent in 2003. According to estimates of the Central Bank, basic inflation, i.e. the value net of seasonal fluctuations and administered prices, should be at a level of 7.5 to 8.5 percent. Plans envisage that in the next three years inflation will diminish to less than 8 percent. The Bank of Russia continues to follow the floating rate policy. The money supply index is not regarded as a benchmark.

Among various measures applied within the framework of the monetary policy, a reduction in the refinancing rate from 23 to 21 percent since 07 August 2002 deserves attention. The interest policy has so far has negligible influence, though. Following a number of legal trials, the latest of which was won by the Central Bank, the Board of Directors of the Bank of Russia decided on 23 August 2002 that the mandatory sales of the export hard currency receipts would either proceed via authorized banks at interbank currency exchanges or the receipts could be sold directly to the Central Bank of RF, in the OTC interbank market or to the authorized bank maintaining the company's accounts. The monopoly of currency exchanges is thus canceled.

D. Levchenko

Financial Markets

The Market for Government Securities

In August 2002 the yield growth trend in the market for Russian foreign debt that was observed during July ceased, giving place to a downward trend for most of security types (see Figures 1 and 2). The main factors contributing to the dynamics of the Russian securities were the rise in Russia's sovereign debt by Standard & Poors from B+ to BB- on 26 July 2002 and a certain pacification of international markets that occurred, among other things, due to a positive outcome of negotiations between Brazil and the IMF on allocation of a US\$ 30 billion aid package.

Fig. 1. O V V Z yields rate between May through August 2002

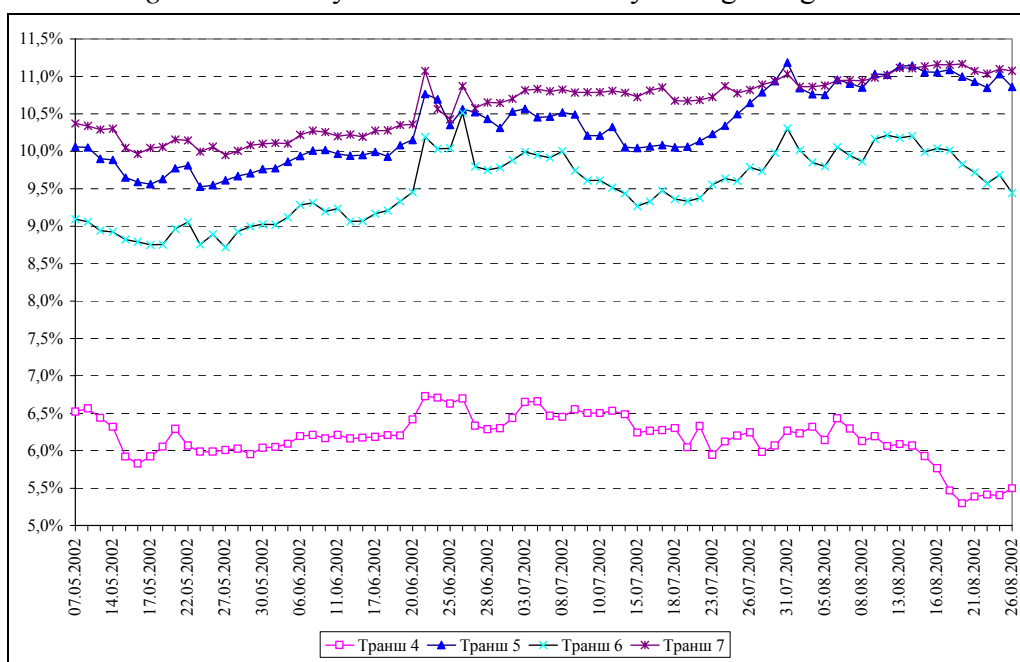
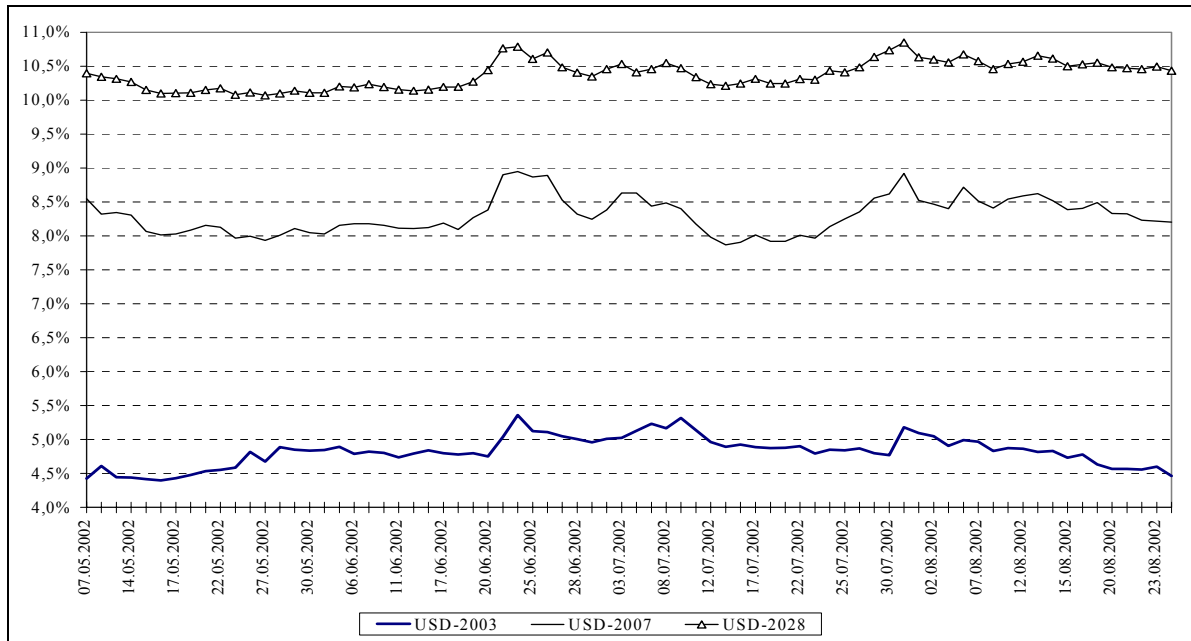


Fig. 2. Yields rate of Russian Eurobonds with maturity dates due in 2003, 2007 and 2028 between May through August 2002

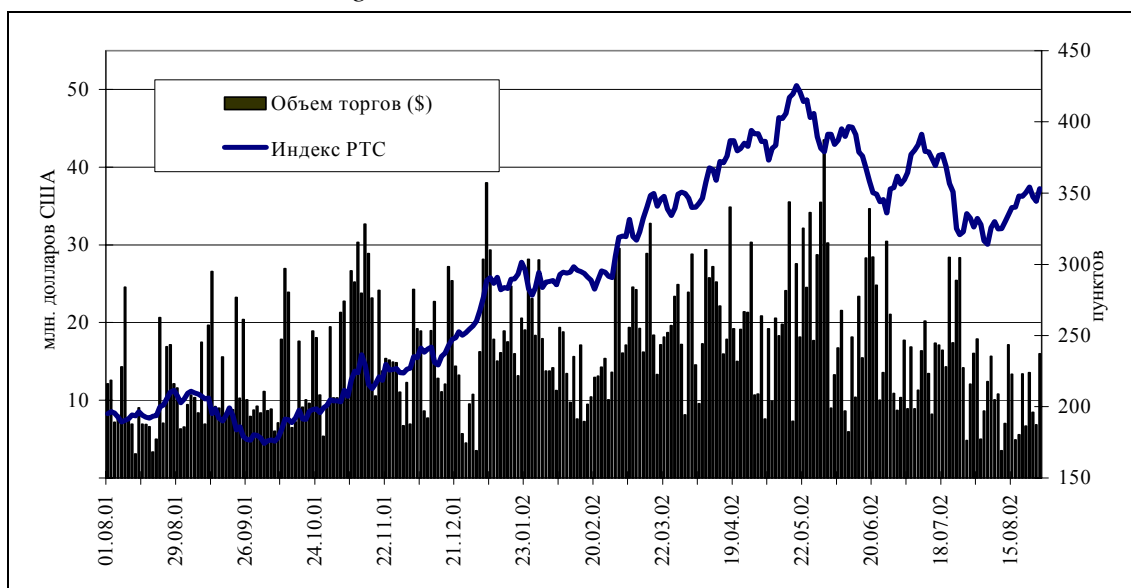


The yield of securities in the market for domestic debt was 13 - 14 percent p.a. Despite their low yield, Rouble-denominated securities are actually quite attractive assets in the summer period. The RF Pension Fund is a constant large participant of the market; according to M. Zurabov, the Fund's monthly investment plans reach ca. US\$ 120 million.

The market for corporate securities

Following sharp fluctuations in July, the Russian market spent a rather quiet August. The upward trend in the oil and gas market had a positive influence on the quotations of Russian assets, especially the securities of oil companies. However, the trade volume declined almost 1.5 times. It should be noted that the continuing uncertainty in the world's leading exchanges and the crisis in some of Latin-American countries led to a decrease in investor confidence in developing markets. On the whole, lower market activity in summer is a normal phenomenon; we expect that important events may take place in the fall.

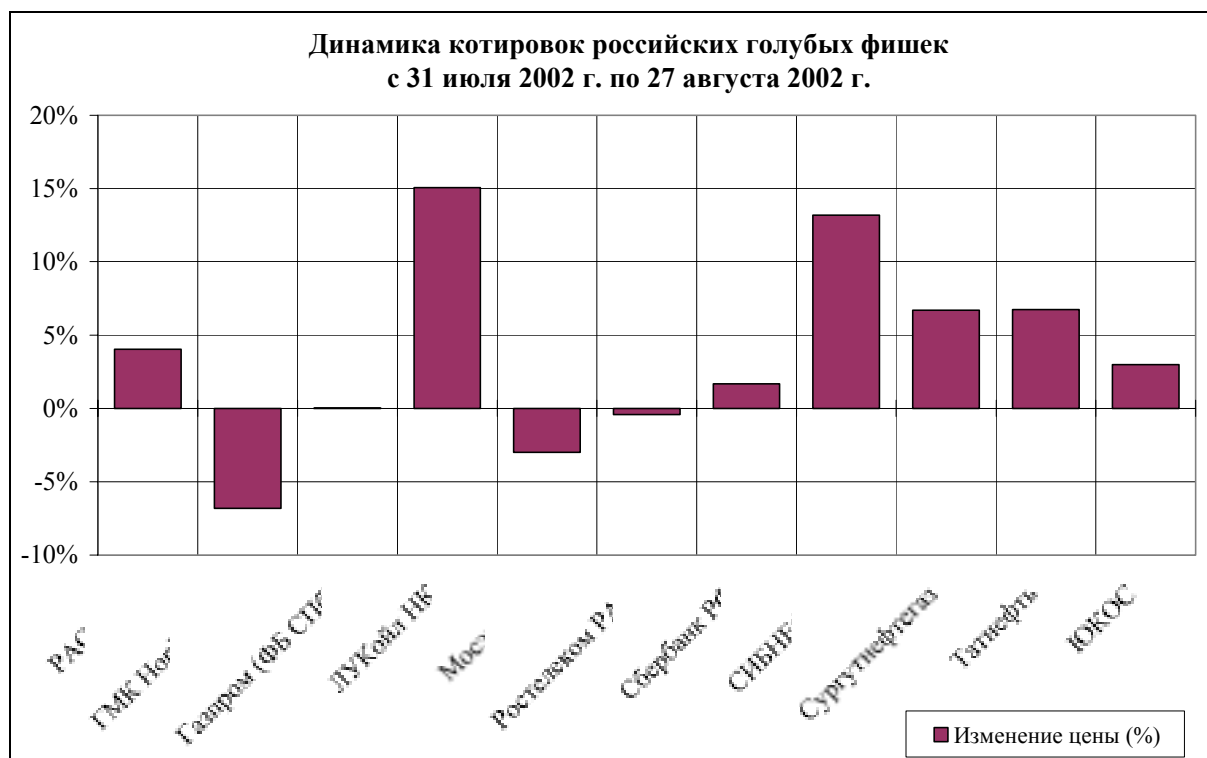
Fig. 3. Volume of trade RTS index



The Stock Market

From 01 to 27 August the RTS index grew by 26.86 points (8.23 percent) and reached the level of late June. On 27 August the index reached 353.09 points. Yet, the index growth was accompanied by a decrease in the trade volume that was less than US\$ 196 million in the stated period (a drop by 40 percent from same period of July). The average annual turnover decreased to US\$ 10.3 million. On 12 August the trade volume reached the year low of US\$ 3.49 million. The RTS index dynamics may be subdivided into two main periods: from 01 to 06 August the stock market index fell by 12.24 points (-3.8 percent) to reach 313.99 points; thereafter till the end of the month a growth may be observed up to values around the 350 point mark. The maximum index value observed in August was 354.19 points.

Fig. 4. Dynamics of quotations of Russian blue chips between 31 July through 27 August 2002



RAO UES Norilsk Nickel Gazprom (at St. Petersburg exchange) LukOil Mosenergo RAO Rostelecom Sberbank Sibneft Surgutneftegas Tatneft YUKOS

(price change in %)

In August growth leaders among **blue chips** were the stocks of oil companies LUKoil (15.06 percent), Sibneft (13.19 percent), Tatneft (6.73 percent) and Surgutneftegas (6.7 percent). This fully conforms to the situation in the "black gold" market. Additional factors contributing to higher attractiveness of LUKoil securities were the successful completion of the listing in London (see below) and a refusal to sell a block of this issuer's shares that currently belongs to the state. Prices for the securities of the following issuers changed to a smaller extent: RAO UES of Russia (4.02 percent), Yukos (2.98 percent) and the Savings Bank (1.67 percent). The lower yield of Yukos's securities as opposed to other oil securities can be explained by the fact that its shares were overestimated. The price reduction also affected Mosenergo (-3.01 percent) and the MMC Norilsk Nickel. The prices of metallurgical companies' shares are the result of expectations of lower prices in international metal markets.

In August ordinary LUKoil shares took the top position (28.38 percent from 22.58 percent last year) in the trade volume in the total turnover at RTS. The proportion of RAO UES's ordinary shares declined to 20.51 percent (28.12 percent); Surgutneftegas grew to 15.09 percent; Yukos: 11.93 percent (11.76 percent); Mosenergo: - 5.45 percent (1.51 percent). The total proportion of five most liquid shares in the overall RTS turnover remained practically the same, amounting to 81.36 percent (July: 81.32 percent). In the period from 01 to 27 August 2002 the volume of trade in Gazprom shares performed via RTS terminals was US\$ 52.36 million (over 63 million shares); the total amount of deals concluded with the gas monopoly's shares was 8.2 thousand.

As at 27 August the Russian top five companies by capitalization are as follows (RTS data): Yukos: US\$ 21.17 billion; Gazprom: US\$ 19.94 billion; LUKoil: US\$ 14.15 billion; Surgutneftegas: US\$ 13.05 billion; Sibneft: US\$ 9.68 billion.

The market for term contracts

The interest of market participants in the FORTS market remains unabated. In the period from 01 till 27 August the total turnover of the term market achieved RUR 6.21 billion (over 43.6 thousand deals, 1.8 million contracts). Futures contracts accounted for RUR 6.12 billion (42.8 thousand deals, 1.78 million contracts) in this amount. The peak activity of market participants was observed on 07 August when the trade volume amounted to RUR 453.78 thousand. The average daily trade volume was RUR 326.9 million while average amount of deals was 2296.

The corporate bond market

An increase in the yields of most issues of corporate securities was observed in August; however, the market was not especially active. Investors are waiting for the autumn wave of IPOs by such issuers as RAO UES, RusAl and other large Russian companies. The list of factors affecting the quotations includes expectations of yield growth because of IPOs that are awaited in September and a relatively low level of interbank lending rates. The IPOs will be made with a premium against the secondary market. Therefore, its participants will try to increase the yields in the secondary market. In the period from 01 till 27 August the turnover in the secondary market of corporate bonds was RUR 1.56 billion. The leaders during this period were the as follows: Slavneft (2nd issue): 16.05 percent; TNK (5th issue): 11.53 percent; Nizhnekamsneftekhim (2nd issue): 8.55 percent; Gazprom with 7.03 percent and Aeroflot (2nd issue) with 5.88 percent. The total trade volume for the five most liquid bonds was 49.05 percent. Among IPOs we would like to note the placement of the 16th issue of MMK bonds (RUR 300 million), 1st issue of Russian Standard - Finance (RUR 500 million) and Uralsvyazinform (RUR 1 billion).

Factors affecting the pricing

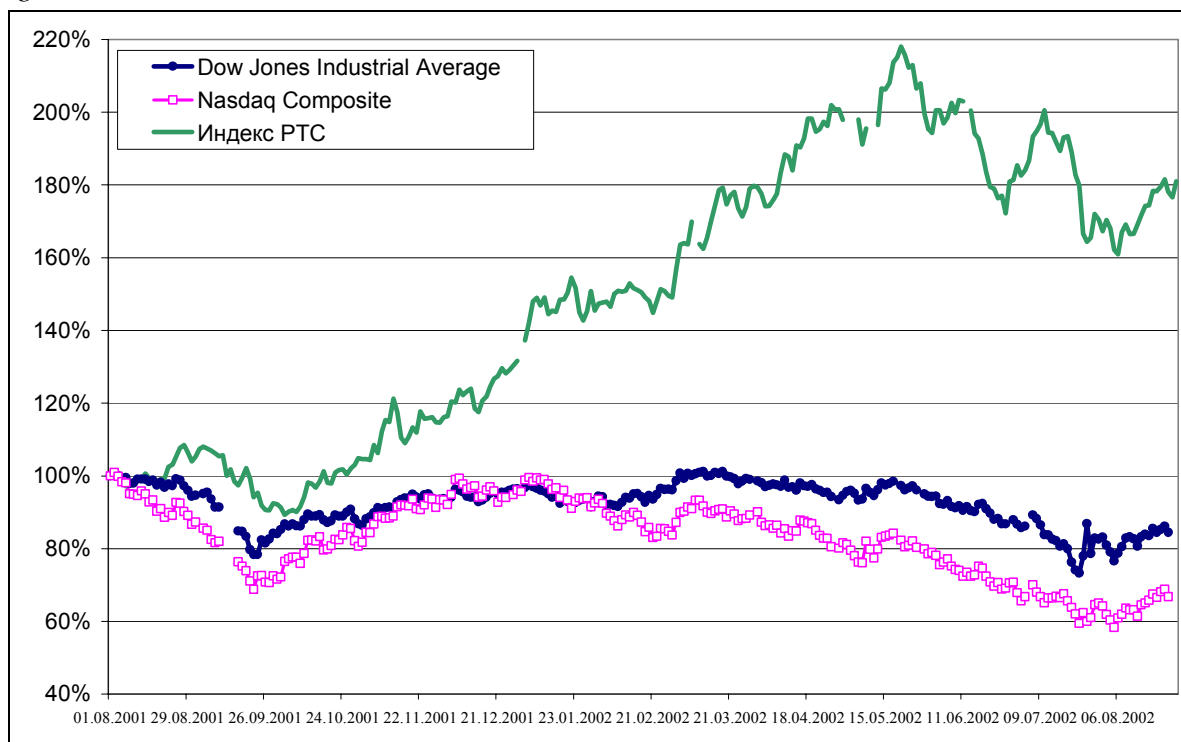
Fig. 5. Brent price in the US, at NYMEX



On the whole, an upward trend was observed in the August oil market which affected the quotations of Russian oil companies positively. In the end of the month the price for one barrel of oil amounted to the level of September 2001. On 20 August the September futures for Light Sweet closed at NYMEX at a record-high marke, achieving the level of US\$ 30.11 / bbl. Previously an oil price exceeding US\$ 30 / bbl was observed at the exchange on 13 February 2001. Futures contracts for gasoline and reduced fuel oil also grew significantly at NYMEX on that day; e.g., the price for reduced fuel oil hit a 15-month record mark. On 22

August the price for Brent was US\$ 27.98 / bbl. Since the beginning of the rally prices in London grew by 8.5 percent; in New-York oil prices grew by more than 11 percent. As NYMEX moved to October futures contracts, the price level in the oil market somewhat diminished. However, it is quite possible that the growth in oil quotations may recommence in case there is new information. For instance, the markets fear that the OPEC countries will keep the oil quotas in Quarter 4 of 2002. President of Venezuela Hugo Chaves said that an increase in oil prices in the world market up to the US\$ 30 / bbl mark would not inevitably result in an international economic crisis. In the OPEC summit, which is due to take place on 19 September, Venezuela is not going to support the suggestion to increase export quotas. At the same time, market participants believe it is possible that the USA will soon start a military operation in the Persian Gulf.

Fig. 6.



Leading US indexes grew in August: on 23 August Dow Jones increased 136.36 points (1.56 percent) and NASDAQ grew 52.36 points (3.94 percent). Largest US corporations completed their certification in accordance with new SEC regulations. The aim of the new regulations is to radically reduce the possibility of a new scandal relating to financial statements.

The EU Commission has passed amendments to the anti-dumping legislation; this action has moved the recognition of the Russian economy's market status closer. The EU Council is expected to approve the entire package of amendments to the EU legislation as soon as the coming fall. The EU may thus become the first trade partner to grant Russia the status of a country with market economy.

On 26 July Standard & Poors announced that it upgraded the long-term sovereign credit rating of the Russian Federation in the foreign and local currency from B+ to BB- and confirmed the short-term sovereign credit rating in the foreign and local currency at the B level. The forecast on sovereign ratings was changed from "positive" to "stable". The increase in the rating reflects improvements in the management system in the Russian Federation and a more firm debt policy. Furthermore, the agency's analysts noted that the change in the management of the RF Central Bank expanded the prospects of important banking reforms and financial liberalization and the recent changes in OAO Gazprom that has significant political influence also pointed to progressing rationalization of the Russian energy sector.

On 13 August the Federal Open Market Committee decided in its meeting to keep its target for the federal funds rate at 1.75 percent. At the same time, however, the FRS announced a change in the estimate of the basic risk for the US economy from "neutral" to a "risk of slowing in the rate of economic growth". This change in risk estimate may signify future rate reduction which corresponds to the expectations of market participants.

Corporate News

OAO Oil Company LUKoil

The UK Listing Authority included the company's securities in the official list; thus LUKoil obtained a full secondary listing at the London Stock Exchange. All ordinary shares and Level 1 ADRs of the company have been listed. The shares will trade in the form of ADRs. On 6 August the ADRs started to trade at US\$ 55 per ADR. As the first Russian company to receive a full secondary listing, LUKoil will be subject to more onerous requirements than those, which currently apply to it as an issuer of securities. The new requirements imply more detailed disclosure of information on the operations of the LUKoil group and regular reporting to the holders of its securities.

Net unconsolidated profits of the oil company calculated by Russian accounting standards amounted to RUR 17.6 billion in the first six months, nearly RUR 2.3 billion more than in the same period of 2001.

RAO UES

The company published its RAS financial results. Profits before taxation in Q2 were down to RUR 7 billion, 1.6 times lower than in the same period of 2001 and 3.3 times lower than in Q1 of the current year. Net profits in the first six months of the current year were RUR 22.7 billion, three times more than in the same period of 2001. Receipts from sales of goods and services were RUR 23.9 billion (first six months of 2001: RUR 16.5 billion). Revenues from subscription fees were RUR 18.9 billion. Production cost amounted to RUR 7.7 billion. Sales profits were RUR 15.2 billion. The holding's total assets exceeded RUR 302 billion.

According to the Vice-Premier of the RF Government Victor Christenko, the project of reorganization of regional power companies will be from now on approved by a government committee on reforms in electroenergetics and not by the RAO UES Board of Directors. Christenko reminded that previously the project of reorganizing regional power companies had been considered by a special group and thereafter submitted to the Board of Directors for approval.

Standard & Poors announced its decision to give RAO UES a Level B long-term credit rating of the issuer for its obligations in the local and foreign currency, with a stable forecast. At the same time S&P gave RAO UES a ruA+ national scale rating. In the opinion of the agency's representatives, the credit ratings reflect the company's dominating positions in the Russian electric power market, its strategic importance for the state. Besides, it is a reflection of improving financial state and a relatively low level of debt burden: the company's aggregate debt is ca. RUR 58 billion which is less than 9 percent of the holding's total capital. Over the course of the past three years RAO UES has significantly improved its financial state which resulted in financial result growth, reduction in accounts payable and accounts receivable and elimination of non-monetary settlements.

Mosenergo

Another large Russian electric power company, Mosenergo and the European Bank for Reconstruction and Development concluded a US\$ 70 million loan agreement. The loan is extended for a five-year term. It will be utilized to reorganize Mosenergo and fund construction of new facilities.

In accordance with the agreement, EBRD will extend US\$ 35 million and the second half will be provided by international banks. In its turn, Mosenergo decided to include an EBRD representative in the committee on company reorganization.

According to the Russian accounting standards, the company's loss in the first six months of the current year was RUR 778.3 million as opposed to a profit of RUR 2.7 billion in the same period of 2001. Receipts from sales of goods and services were RUR 23.7 billion (first six months of 2001: RUR 22 billion). The company's gross profits in the first six months dropped almost five times as opposed to the same period of 2001. Sales profits were RUR 1.2 billion (first six months of 2001: RUR 5.6 billion). On 28 August S&P changed the forecast for the long-term credit rating of the company from stable to positive. The reasons for the forecast change were a recent increase in tariffs for heat and electric power and the conclusion of the loan agreement with the EBRD.

OAO Gazprom

The company presented its IAS statements for 2001 audited by ZAO PricewaterhouseCoopers-Audit. According to the IAS statements, the gas company's receipts from sales in 2001 were ca. RUR 620 billion as compared with RUR 642 in the previous year. The main reason for the reduction in receipts was a reduction in the volume of gas sold, reduction in average gas prices and adjustments in the financial statement due to the influence of inflation. It should be noted that the lowering in the receipts from sales was offset by a 10

percent reduction in Gazprom's operating costs. As a result, in 2001 sales profits grew 16 percent and reached approximately RUR 184 billion. The company's profit before taxation was RUR 201 billion in 2001, 10 percent more than in 2000.

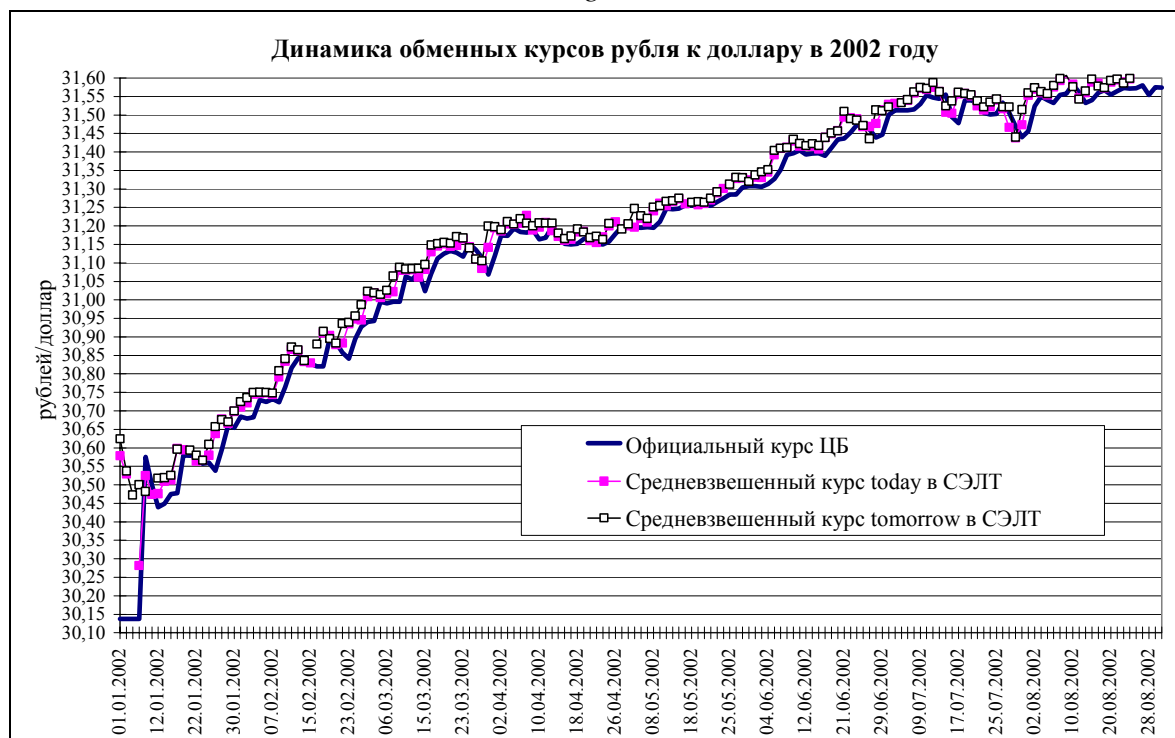
Table 1

Dynamics of Foreign Stock Indexes			
As of 23 August 2002	Value	Change During the Month (%)	Change Since the Beginning of the Year
RTS (Russia)	347,39	6,49%	33,59%
Dow Jones Industrial Average (USA)	8872,96	1,56%	-12,47%
Nasdaq Composite (USA)	1380,62	3,94%	-30,53%
S&P 500 (USA)	940,86	3,21%	-18,96%
FTSE 100 (UK)	4389,8	3,38%	-16,26%
DAX-30 (Germany)	3828,26	3,46%	-25,81%
CAC-40 (France)	3526,09	3,24%	-23,75%
Swiss Market (Switzerland)	5493,3	5,71%	-14,41%
Nikkei-225 (Japan)	9867,45	-0,11%	-6,40%
Bovespa (Brazil)	9676	-0,89%	-28,74%
IPC (Mexico)	6148,9	2,11%	-4,92%
IPSA (Chile)	88,07	0,23%	-19,28%
Strait Times (Singapore)	1531,9	1,56%	-5,79%
Seoul Composite (Korea)	740,51	3,14%	6,75%
ISE National-100 (Turkey)	9349,84	-8,66%	-32,16%
Morgan Stanley Emerging Markets Free Index	301,536	2,35%	-5,00%

Foreign Exchange Market

In August the Russian foreign exchange market was traditionally quiet. The Rouble-dollar exchange rate changed insignificantly. On 01 August 2002 the official dollar exchange rate was 31.4568 RUR / US\$ and on 31 August 2002 the rate was 31.5673 RUR / US\$. According to preliminary estimates, the trade volume in the SELT was RUR 120 - 130 billion.

Fig. 7.



The Euro / US\$ exchange rate stabilized in August approximately at the level of 0.98 US\$ / Euro.

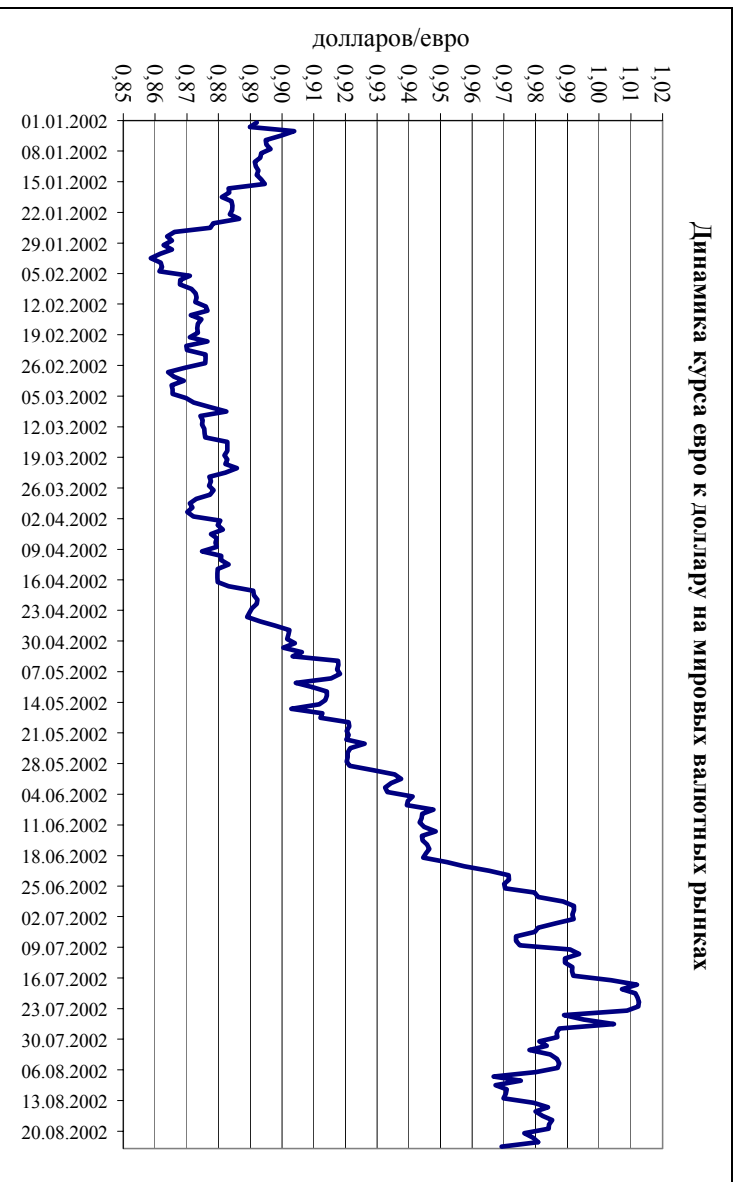


Fig. 8

In August the official RUR / Euro exchange rate experienced an insignificant rise from 30.8717 RUR / Euro to 31.0938 RUR / Euro, i.e. by 0.72 percent.

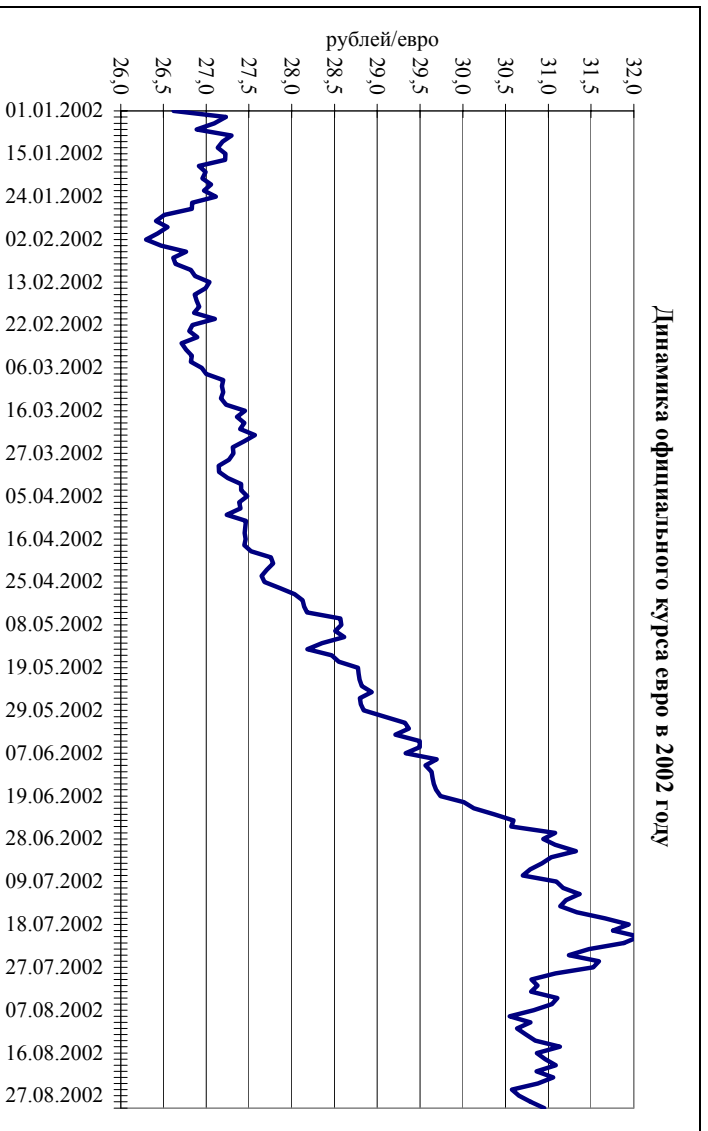


Fig. 9

Table 2

Month	April	May	June	July	August*
Monthly inflation rate	1,2%	1,7%	0,5%	0,7%	0,1%
Inflation rate annualized on the basis of this month's trend	15,39%	22,42%	6,17%	8,7%	1,2%
CB RF refinancing rate	23%	23%	23%	23%	21%
Annualized yield to maturity on OFZ issues	16,64%	15,61%	14,86%	14,5%	14,5%
Volume of trading in the secondary GKO-OFZ market for the month (RUR billion)	11,33	14,98	12,99	9,0	12,3
Yield to maturity on Minfin bonds at the end of the month (% p.a.)					
4 th tranche	6,19%	6,05%	6,29%	6,27%	5,5%
5 th tranche	9,88%	9,77%	10,43%	11,19%	10,8%
6 th tranche	8,80%	9,02%	9,75%	10,3%	9,7%
7 th tranche	10,26%	10,11%	10,65%	11,03%	11,1%
8 th tranche	8,92%	9,09%	9,55%	9,72%	9,7%
INSTAR-MIACR rate (% p.a.) on interbank loans at the end of the month:					
Overnight	8,86%	4,09%	14,81%	29,06%	2,6%
One week	12,34%	7,08%	22,26%	8,08%	4,8%
Official RUR / US\$ exchange rate at the end of the month	31,1963	31,3071	31,4471	31,4401	31,5673
Official RUR / Euro exchange rate at the end of the month	28,1453	29,3254	31,0792	30,8019	31,0938
Average annualized growth in RUR / US\$ exchange rate	0,25%	0,36%	0,45%	-0,02%	0,4%
Average annualized growth in RUR / Euro exchange rate	3,66%	4,19%	6,81%	-0,89%	0,72%
Volume of trading at the stock market in the RTS for the month (US\$ million)	468,9	454,1	344,3	407	250
Value of RTS Index at the end of the month	386,10	391,26	353,79	326,23	335
Change in value of RTS Index during the month (%)	10,08%	1,34%	-9,58%	-9,22%	2,7%

* Estimates

D. Levchenko, D. Skripkin

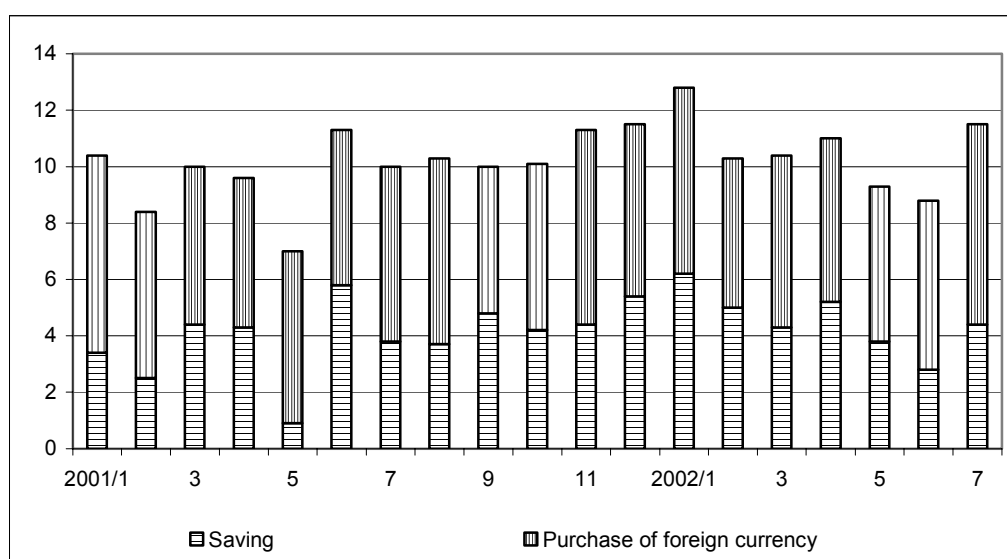
The Real Sector: Factors and Trends

The persistent trends towards the expansion of production across all economic sectors and industries determine the current macroeconomic situation. In the 2nd quarter of 2002, there was observed an acceleration of rates of growth across practically all economic sectors and industries. In January through July of this year, the output of products and services of base economic sectors made 4.1 %. The positive dynamics of development base economic sectors and the favorable external economic situation determined the nature of structural shifts in the real sector. The volume of industrial output increased by 3.9 %, construction grew by 2.9 %, and agricultural produce increased by 3.9 % in comparison with the figures registered in January through July of 2001. Infrastructure sectors (trade and communications) most intensively developed in the sector of services. This year, the Russia's economy maintains the trend towards the outpacing growth of internal demand as compared with external demand, what was first observed in the 4th quarter of 2000. It shall be noted that while in the first six months of 2001 economic growth was determined by the intensive increase in investment, this year the structure of final demand changes on the impact of the outpacing growth in final household consumption. According to preliminary estimates, the final household consumption increased by almost 4.9 % in comparison with the first half-year of 2001, while rates of growth in investment in fixed assets were at 2.6 %.

A factor behind the expansion of final consumption was a gradual improvement of the social parameters of economic development. In June and July, the growth in real household incomes recovered. In comparison with the respective period of the last year, the increment in the real household incomes made 7.8 %, while real wages and salaries grew by 18.0 % and real gross pensions increased by 20.0 %. In contradistinction to

2001, practically all increase in turnover was determined by the growth in sales of non-food goods. While the retail trade turnover increased by 8.7 % as compared with the figures registered in January through July of 2001, the growth of sales of food products grew by 9.9 % and sales of non-food goods increased by 7.6 %. The changes in the dynamics of sales across types of goods occurred at the background of increasing share of savings in household incomes. In comparison with indicators observed in July of 2001, the share of savings increased by 0.4 p.p. The amount of Ruble denominated household deposits with crediting institutions grew by 15.9 % and forex denominated deposits increased by 26.2 % as compared with the figures registered early in the year. However, it shall be stressed that this trend is forming at the background of intensifying differentiation of households by the level of incomes and increasing concentration of incomes in the households with high incomes. The Gini coefficient made 0.408 in June of 2002, as compared with 0.406 registered in the respective period of 2001, while the coefficient of funds increased respectively to 14.2 (as compared with 14.1).

Fig. 1. The share of savings and purchase of foreign currency in household incomes in 2001 through 2002, in % of household incomes



An analysis of the household income structure in comparison with the first six months of 2001 demonstrates a growth in the share of wages and salaries and social transfers. It shall be stressed that this year there is observed a growing gap between the increase in wages and labor productivity. The growth of real wages and salaries considerably outpaces GDP dynamics, although the level of average monthly wages and salaries makes about 80 % of the indicators registered in pre-crisis 1997. The major factor behind the increase in production was the expanding employment. The number of employed in the economy grew by 1.6 million, while the total unemployment decreased by 9.8 % in comparison with 1998 figures. While in 1997 there were registered 7.6 unemployed per vacancy, and in 1999 this indicator made 3.6 unemployed per vacancy, in June of 2001 this figure made 1.3 unemployed per vacancy. As a result, revenues of the economy are redistributed in favor of population at the expense of enterprises, what results in decreasing profitability of production.

In January through May of 2002, profits of major economic sectors made Rub. 441.0 billion. The balanced financial results of large and medium sized organizations across all sectors of the economy decreased by 36.7 % as compared with the level registered over the respective period of the preceding year (this indicator for industry made 45.4 %). The share of organizations operating at loss increased by 4.7 p.p. in comparison with the figures registered in January through May of 2001 and made 43.2 %. Factors behind the decrease of profitability in industry was falling profitability of export operations and growing costs, including outpacing rate of growth in costs of fuel, electric energy, and wages and salaries.

The share of gross revenues of the economy in GDP decreased by 1.1 p.p. in comparison with the figures observed in the 1st quarter of 2001, while the share of wages and salaries increased by 2.5 p.p. This trend formed at the background of falling labor productivity resulted in the shrinking internal investment resources of enterprises. The balance of proceeds remaining at the disposal of enterprises accounted for the financing

of 21.6 % of investment in fixed assets, what is by 2.5 p.p. less than in the respective period of the preceding year. This May, the amount of enterprises' borrowings decreased by 0.3 %, while in 2001, the average rate of increase in enterprises' borrowings made 2.6 % a month. The deceleration of investing activity was also determined by the lack of sectoral shifts. Shrinking investment demand on the part of export-oriented fuel and raw materials industries determined by falling export revenues negatively affected the character of business activity in the investment complex. As a result, in January through July of 2002, investments in fixed assets grew only by 2.6 % as compared with 7.3 % registered in the respective period of the preceding year. According to the estimates of the Ministry for Economic Development, in 2002 the total investment grew by 4.5 % in comparison with figures observed in the preceding year. On the whole, at present production is developing rather intensively and there is no reason to expect that its rates of growth will decelerate in the last six months of 2002.

O. Izryadnova

IET Business Survey: Industry

The growth in cash sales observed for the second month running has revived the Russia's industry. The rates of growth in production have been restored, the rates of decline in real profits decelerated, enterprises have started to purchase machinery and equipment.



EFFECTIVE, BARTER, AND OTHER FORMS OF DEMAND TRENDS

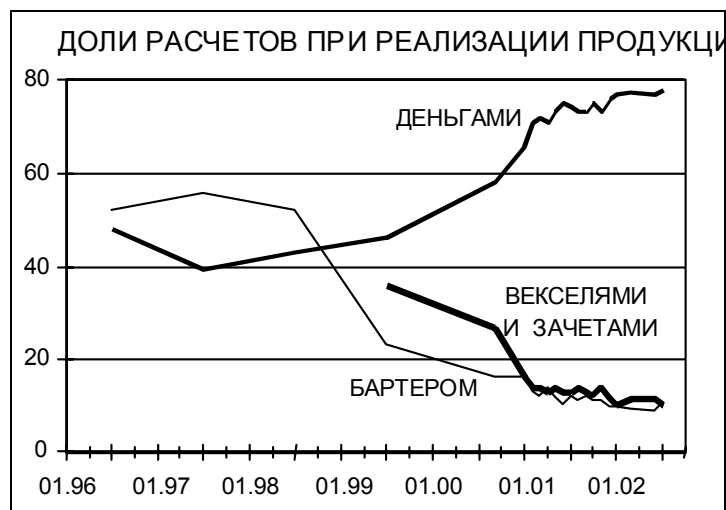
(BALANCE = UP – DOWN)

EFFECTIVE: REPORTED, EXPECTED

BARTER: REPORTED, EXPECTED

OTHER NON-CASH: REPORTED, EXPECTED

In August, the growth in effective demand for manufactured goods was at the level registered in July. Therefore, the second month running the Russia's industry demonstrated a growth in cash sales. A decline in cash sales was registered only in power engineering, light and food industries, while the growth was most intensive in ferrous metallurgy and forestry complex. The growth in normal sales allowed enterprises to stop the increase in promissory note and offset deals. At the moment, these operations decline across all industries with the exception of metallurgy, chemistry, and petro-chemistry. Two months ago, surveys registered an absolute increase in promissory note and offset transactions, which was more intense than in all other types of deals. At the same time, in August the intensity of decline in barter after the stabilization registered in April through July was by 3 p.p. less. Therefore, the general amount of barter transactions diminishes more slowly than some months ago. Moreover, the rate of decline in this indicator registered in August was the slowest since April of 1999, when the amount of normal transactions started to rise for the first time since the default and enterprises began to diminish the amount of direct barter operations. However, enterprises could retain a high share of cash sales in 2002 (see Figure). At present, almost 80 % of manufactured good are paid for in cash and only 20 % of sales involve barter operations, promissory notes, and offsets.



SHARES OF SALES

CASH

PROMISSORY NOTES AND OFFSETS

BARTER

The increasing effective demand resulted in the “recovery” of production. In August, the balance of change in output increased to 28 points. Such an intensive growth has not been observed since the autumn of 2001. At the moment, responses indicating a decline in output prevail (due to the seasonal factors) only in power engineering. Other industries managed to accelerate rates of growth in output in June through August.

The increase in production did not result in growing stocks of finished goods. In August, the balance of estimates of stocks decreased by 4 points but retained positive values – enterprises still prefer to have finished goods at warehouses in order to be ready to ship them immediately to new customers. In August, a shortage of stocks was registered only in non-ferrous metallurgy, forestry complex, and construction industry.

The growth in demand has also positively affected the dynamics of real profits of enterprises. In August, the intensity of decline in this indicator was most moderate in 2002. An absolute increase in profits has been registered only in non-ferrous metallurgy and construction yet.

The investment activity of enterprises has also improved. For the first time in 2002, in the Russia’s industry there has been registered a growth (only very slight yet) in purchases of machinery and equipment. Earlier, in the 1st and 2nd quarters, enterprises more often reported on declines in purchases of both imported and domestic equipment.

Estimates of changes in effective demand were stable over the last four months. Enterprises across all industries with the exception of construction materials, chemistry, and petro-chemistry expect an increase in sales. The most optimistic forecasts were registered in power engineering and ferrous metallurgy. It is likely that the amount of barter transactions in the Russia’s economy will decrease in the following few months. The recovery of growth in normal sales allowed enterprises to revise their plans with regard to barter. While in July the aggregate forecast demonstrated that enterprises were ready to stop the decline in barter, in August the balance of forecasts returned to the previous level of moderate decrease in direct goods-for-goods operations. As concerns estimates of promissory note and offset deals, they show that enterprises are ready to increase such operations, or maintain their current amounts. Only mechanical engineering, forestry complex, and construction industry the intentions to considerably decrease the amount of such operations clearly prevail.

As concerns the plans with regard to changes in output in August, they remained the same. The Russia’s industrial sector at large and enterprises across practically all industries expected a rather intensive growth in output. Forecasts of reduction of output prevailed only in non-ferrous metallurgy, construction and light industries.

In the 3rd quarter, enterprises’ investment plans changed to the better. In the few next months, enterprises (mainly in ferrous metallurgy, power engineering, and light industry) intend to intensify purchases of domestic machinery and equipment. Answers indicating plans to reduce purchases prevail only in non-ferrous metallurgy and construction industry. It is possible that in the 4th quarter enterprises will purchase a little more imported machinery. Such plans exist in power engineering, chemistry, petro-chemistry, and light industry.

S. Tsukhlo

Agri-Industrial Sector in the first half-year of 2002

In 2002, the agricultural production continues to grow. While in 2001 experts explained the growth in the agrarian sector by favorable weather conditions resulting in respective surge of crop production, the dynamics observed in 2002 demonstrate that the recovery of agriculture is related rather to internal processes of restructuring and the improvement of the general economic situation of the country than weather conditions. At present, there is no doubt that the agrarian sector demonstrates sustainable growth.

In the first six months of the year the agricultural production increased by 4 % in comparison with a 2.3 % growth registered in 2001. Due to the seasonal specifics of agriculture, the dynamics of livestock sector determined the growth in the first half-year. Indeed, since the beginning of the year, the production of major types of livestock produce has significantly increased. As concerns crop produce, the annual dynamics will be determined by the production of grain. This year, the gross yield of cereals will be only slightly below the last year figures. Therefore, even now the annual rate of growth in the sector may be estimated at about 4 %. This figure is below the average rate of growth in the last three years, however, if this rate of growth is maintained for next 3 to 4 years, Russia will recover the gross volume of production of agriculture registered in the pre-reform period.

Agriculture grows mainly due to intensive factors: yields and productivity. Volumes of produce have grown, although the area of farm lands remained practically the same, while the livestock population continued to decline.

In spite of the forecasted sharp downfall in gross yield of grain (down to 72 to 77 million metric tons), the actual yield in Russia will be at about 85 million metric tons. No major expert center could foresee such a high yield in the current year, therefore this unexpected result had a strong negative impact on the market. Market agents were not ready for this development, while the government has no time to render urgent aid. The aggregate supply of grain (taking into account the stocks of grain accumulated in the preceding years) will exceed 100 million metric tons, i.e. will be 15 to 20 million metric tons above the domestic demand. The fact that the export of grain is limited (this year grain exports were only slightly above 5 million metric tons) resulted in a sharp downfall of prices and diminishing areas under winter crops for the next year (by August, only 60 % of the last year's level). Grain producers curtail supply in answer to the price drop. In other words, due to the absence of futures trade, supply is still determined by the extremist reaction of producers: a 15 % to 20 % of overproduction results in a 40 % decline in supply, even in spite of the fact that the yields in the North America and some Latin American countries were rather poor and grain prices on world markets are expected to rise in the medium term outlook.

The quota auctions for unrefined sugar held for the second year running failed to reverse the situation as concerns sugar beet production – the areas sown with sugar beet continue to stagnate, while Russia continues to process imported unrefined sugar in volumes more than 1.5 times exceeding the pre-reform levels.

Agricultural enterprises account for the growth in meat production: the supply of meat and poultry increased by 11.7 %. Large enterprises increase the production of pork (9.6 %) and poultry (15 %).

The private sector accounts for the bulk of growth in production of milk (large enterprises increased milk production only by 1.3 %). The rising unemployment in rural areas forces the population to seek incomes by developing personal subsidiary plots, therefore milk production became a most common occupation in rural areas. Everywhere, regional authorities encourage this type of self-employment, even in such regions of intensive milk production as the Vologda oblast, while it, firstly, creates competition for intensive producers of milk, and, secondly, may result in the problem of the deficit of quality milk for processing.

Food industry continues to intensify the rates of production, what is especially noticeable in the meat and milk sector. A sharp increase in production of protein and vitamin admixtures is an evidence of the beginning of intensification in the livestock sector: producers started to use efficient nutrition schemes.

At the same time, the rates of growth in food and processing industries noticeably outpace the rates of growth in the primary agricultural production, what is an evidence of the persisting orientation towards imported raw materials. In May of 2002, the pre-crisis level of food imports (1998) was recovered. The rate of growth of production in industries producing base resources for the agrarian sector has slowed down, investments in agriculture have practically stopped to grow. The purchasing prices of staple agricultural produce are going down even in nominal terms at the background of increasing output, what results in deterioration of the financial standing of agricultural producers. All this development render the further growth in the sector very problematic.

The state agrarian policy significantly changed in 2002. Firstly, there was approved the law on the turnover of farm lands, which, according to our estimates, would further aggravate the problem of investment in agriculture. On the other hand, there was started the program for the subsidizing of interest rates on medium term credits, what should stimulate the investment process. There persists the trend towards the use of technical barriers for food imports at the background of the very low average import tariff. The new state commercial structures in the agri-industrial sector (Rosselkhozbank, Rosagrolizing, the Federal Agency for the Regulation of the agri-food market) demonstrate their ineffectiveness, what permits to hope that they will be liquidated in the near future.

Regional agrarian programs become more oriented to the market, interregional trade barriers are lifted, and regions strive to support their staple sectors on the Russia's market.

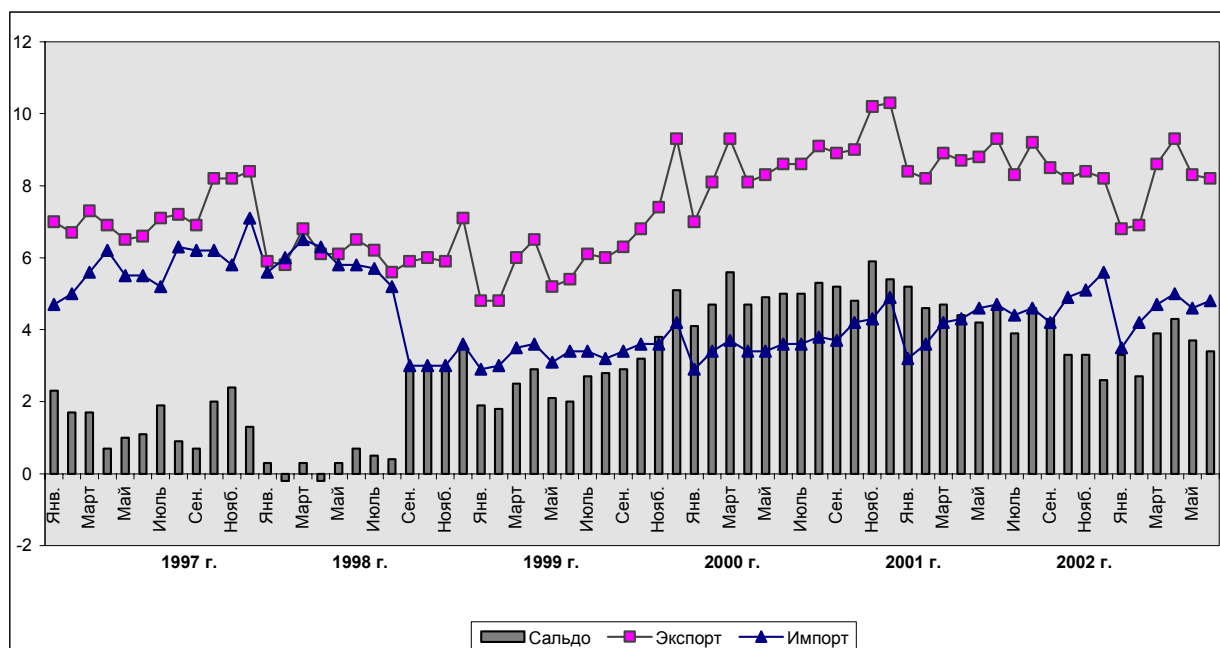
Ye. Serova

Foreign Trade

In June of 2002, the Russia's foreign trade turnover decreased by 6.2 % in comparison with the respective period of the preceding year and made US \$ 12.97 billion. This indicator remained practically the same as in the preceding period. The amount of exports in June made US \$ 8.17 billion, what is 11.8 % below the respective level registered in the preceding year. Imports grew by 2.1 % and made US \$ 4.8 billion. The active balance of trade decreased to US \$ 3.37 billion as compared with US \$ 4.6 billion registered last June.

In the first six months of 2002, the Russia's foreign trade turnover made US \$ 74.9 billion, what is 2.6 % below the level observed in the respective period of the preceding year. At the same time, exports fell by 8 %, while imports grew by almost 9 %.

Fig. 1. Main indicators of Russia's foreign trade (in USD bln.)



Balance Export Import

Source: RF Goskomstat

The business situation on the world markets most important for Russia was the following.

In June, the average world price of URALS oil made US \$ 23.0 per barrel, i.e. the price grew by 25.7 % in comparison with figures observed in January. However, the average monthly price of URALS in the first six months of this year made US \$ 21.6 per barrel, what was by 12.2 % below the level registered in the respective period of 2001. The average BRENT price made US \$ 23.0 per barrel (a 13.5 % decrease).

The average prices of non-ferrous metals remained below the respective indicators registered in 2001. For instance, in January through July of 2002, the average monthly price of aluminum made US \$ 1368.5 per

metric ton, what is by 11 % below the respective level registered in 2001. Nickel (US \$ 6577 per metric ton) and copper (US \$ 1584.2 per metric ton) prices also decreased (by 0.6 % and 7.2 % respectively).

Table 1

The average monthly world prices in June of the respective year

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD / metric ton	130,7	133,1	100,7	116,4	214,1	197,6	179,5
Natural gas, USD / thous. m ³	-	76,3	77,1	84,2	151,6	132,3	116,2
Gasoline, USD / metric ton	157,3	157,6	128,3	173,4	346,5	292,9	273,9
Copper, USD / metric ton	2202	2543	1665	1552,1	1752,0	1615,3	1686,2
Aluminum, USD / metric ton	1490	1575	1316	1327,3	1510,2	1467,7	1354,9
Nickel, USD / metric ton	7153,8	7054,6	4540	5241	8384,3	6629,2	7110,0

Source: calculated in accordance to the data presented by London Metal Exchange (UK)

As before, the structure of Russia's exports to countries outside NIS is dominated by fuel and energy resources (56.1 %). In January through June of 2002, oil exports from Russia made 90.886 million metric tons, what is by 15 % above the respective indicator registered in the preceding year. At the same time, forex-denominated proceeds in the first six months of the year decreased by 6 % (by US \$ 801 million) and made US \$ 12.396 billion. The largest volumes of raw materials were exported to Germany (10.5 million metric tons), Italy (9.3 million metric tons), and the Netherlands (8.65 million metric tons).

Metals and metal articles (15.6 % of the exports) are ranked second. The amount of Russian exports of copper decreased by 21.4 % and raw aluminum – by 6.6 % in the first six months of 2002. Export of copper made US \$ 315.1 million (231.1 thousand metric tons). Countries outside NIS accounted for the major share of exports: 227.8 thousand metric tons worth US \$ 310 million. The copper prices decreased by 14.6 % down to US \$ 1.36 thousand per metric ton. The amount of aluminum exports made US \$ 1.5 billion (1.44 million metric tons). The price of aluminum decreased by 24.6 % down to US \$ 1.04 thousand per metric ton.

The specific weight of machinery in exports to countries outside NIS makes 8 %, chemical products – 6.7 %, wood, pulp and paper products – 5.4 %.

The high activity based on expanding internal (primarily consumer) demand persists in imports. A factor behind a slight deceleration of the rate of growth in imports in comparison with figures registered in 2001 was a rather high saturation of the Russian market. The specific weight of imported products in the retailers' stocks made 50 % in the 1st quarter of this year and continues to grow.

In the first six months of 2002, the volumes of import were almost 1.5 times above the level registered in January through June of 1998, i.e. were significantly above the pre-crisis maximum.

The staple imports from countries outside NIS are machinery, equipment, and transport vehicles. Their share in the total import increased up to 37.3 % as compared with 34.3 % registered in the first six months of the preceding year. The share of foodstuffs and raw agricultural produce in the total import made 26.2 % (a 0.5 p.p. increase in comparison with the indicators observed in the respective period of the preceding year).

In June, the turnover of Russia's trade vis-à-vis CIS countries made US \$ 2.27 billion (exports made US \$ 1.29 billion decreasing by 11.7 % in comparison with the figures registered in June of 2001, while imports fell by 31.5 % and made US \$ 0.98 billion). Imports from countries of Central Asia (Tadzhikistan, Turkmenia, and Uzbekistan) fell most dramatically. The decline in imports is primarily related to the decrease in import of foodstuffs and ferrous metals. It is highly probable that import of some traditional staples (for instance, Ukrainian pipes) will decrease even further, since the special decision of the RF government has recently introduced a special compensatory duty on pipes imported from Ukraine (21 % of the customs value for three years).

In August, Russia and Ukraine held talks on the problems of tariff restrictions in the bilateral trade. In the autumn, it is planned to introduce quotas with regard to metallurgic products, for instance, galvanized steel and rods made of ferrous metals. Quotes shall be introduced in stead of respective tariff restrictions.

In the course of negotiations, special attention was paid to the problems of lifting restrictions on import of Russian motor vehicles introduced on August 1, 2002, as a temporary 32 % duty.

Besides, the parties are planning to lift the restrictions on trade in pipes and a number of Russian goods. Russia made the commitment to abolish the quotation of Ukrainian pipes, while Ukraine promised to lift restrictions on import of 19 groups of Russian goods.

In August, Moscow hosted the trilateral talks of Kazakh, Russian, and Byelorussian ministers for economy with regard to the cooperation of member states of the Eurasian Economic Community (EvrAzES) in the

course of accession to WTO. At the moment, out of five EvrAzES member countries only Kirgizia is a member of WTO.

Late in August, the government at last finalized its decision concerning customs duties on import of cars manufactured seven and more years ago. This document was elaborated in the framework of the concept of development of the domestic motor vehicle industry. Cars manufactured seven and more years ago shall be subject to the following duty: 2 Euro per 1 cubic cm of motor capacity for cars with motors below 2.5 thousand cubic cm and 3 Euro per 1 cubic cm of motor capacity for cars with motors above 2.5 thousand cubic cm (as compared to previously effective duties of 0.85 and 1.4 Euro respectively).

The government decided not to rise duties on new cars (defined as manufactured three years ago and newer ones). The duties remained at 25 %. This decision is most probably related to the fact that newer cars make only 7 % of the total amount of imported cars.

The most important news was that duties on cars manufactured 3 to 7 years ago remained without change (0.85 Euro per 1 cubic cm of motor capacity for cars with motors below 2.5 thousand cubic cm and 1.4 Euro per 1 cubic cm of motor capacity for cars with motors above 2.5 thousand cubic cm), although all preceding drafts envisaged a slight increase in the duties on such cars.

The Russian government introduced a special duty on imported butter (5 % of the import customs duty, but not less than 0.07 Euro per 1 kilogram). The duty shall be in effect until December 31, 2002. Byelorussian producers are exempted from this duty. At the same time, Byelorussian butter is subject to the special duty in the case it is manufactured specifically for sale in Byelorussia and is free of a special duty or the amount of this special duty is not transferred to the federal budget according to the prescribed procedure. The major exporters of butter to Russia are Ukraine (36 % of imports), Byelorussia (20 %), New Zealand (14.6 %), and Finland (11.1 %).

The Russian government took yet another important decision in August. The government abolished export duties on silver. This measure will probably result in an increase in silver exports and a growth in the number of market operators. A recent abolishment of export duties on gold has brought about similar results. According to the Gold Producers' Association, in 2001, 646 metric tons of silver were produced in Russia, of which 462 metric tons were exported. At the same time, the export duty was collected only from 61 metric tons, since the rest silver exports were carried out via Byelorussia and Kazakhstan – members of the Customs Union. Therefore, 90 % of silver exports from Russia were exempted of the duty. At present, the surveyed resources of silver in Russia significantly exceeds the deposits in other countries of the world. The total share of surveyed resources in the largest producers of this metal (USA, Canada, Mexico, and Australia) makes 40 %, significantly below Russia. The demand for silver on the world market is constantly growing, however, the prices of silver decrease for several years running.

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